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SUBJECT: CONGO-BRAZZAVILLE GEARING UP FOR MAJOR ECONOMIC MILESTONES
-- BUT WILL IT SUCCEED?

11. Embassy Brazzaville is an unclassified post.

12. Summary: After 18 months of delays, reviews and stalled programs, Republic of the Congo (ROC) is making significant progress toward reaching its Heavily Indebted Poor Countries (HIPC) completion point and achieving the promise of its debt relief status, granted in 2006. Recent reviews by the International Monetary Fund (IMF) and World Bank have been close to glowing and the Poverty Reduction Growth Facility (PRGF) program is expected to restart in November after being stalled since January 2007. Thus, it is possible ROC could achieve its completion point by 2009. But ... Two key triggers that the government of Republic of the Congo (GRoC) must satisfy are the traditional sticking points: Oil industry management and capital spending management. Given the ROC's history of questionable spending habits and far-from-transparent accounting of oil revenues, some IMF staff wonder how well GRoC will do in meeting the completion point. End summary.

13. Republic of the Congo (ROC) has been mired in inactivity and lack of progress on its Heavily Indebted Poor Countries (HIPC) debt relief program since January 2007. HIPC status was granted to ROC in November 2006, and ROC fell off schedule almost from the beginning. Recent reviews by International Monetary Fund (IMF) and World Bank, and recent meetings between EconOff and key economic contacts at IMF, show substantial progress for ROC and there is a new sense of possibility. The government (GRoC) formed a presidential-level committee to cut through the delays and IMF staff noted, and praised, an almost instantaneous improvement in data collection and sharing by GRoC officials. World Bank officials noted positive developments for ROC's lucrative oil sector, where more information is now available from GRoC on spending and management. Although the anti-corruption committees formed by GRoC still lack resources and power to do any investigating, the fact that they exist at all is seen as a significant improvement. "It put a voice for reform of the government the government," said Yaya Moussa, IMF representative in ROC.

14. A six-month staff monitored program - in effect a probationary review by the IMF -- normally done for immediate post-conflict countries and thus unusual for a post-post-conflict nation like ROC -- ended successfully in June. (One prime reason for this additional review was the IMF discovery that GRoC awarded USD \$200 million to a single governmental entity, the CORAF oil refinery (Congolaise des Raffineries). Although the purpose of the payment was to subsidize consumer pump prices for refined product, the payment was somewhat extra-budgetary, and, as Moussa noted, how can a government that is serious about a poverty reduction campaign be giving USD \$200 million to one, single entity? Attitudes within GRoC itself appear to have changed after a presidential committee was created by President Sassou-Nguesso to focus on the IMF criteria, and now GRoC officials reportedly agree with the IMF position on CORAF: Reduce its allowance.) With all indicators pointing in the right direction now, the ROC hopes that the IMF board will approve a Poverty Reduction Growth Facility program in November, the next major step toward HIPC completion.

15. But, the GRoC continues to face a significant hurdle toward the HIPC completion point. Two of the necessary triggers are what Moussa termed "vicious" for GRoC: oil management, and

capital spending management. Despite the recent progress, ROC continues to operate its oil sector in less-than-transparent manners. GROC has shown more discipline with capital spending programs, but has not yet demonstrated sustained improvement. Given that oil sector transparency and spending habits have been among GROC's weakest attributes, successfully navigating those triggers to reach the HIPC completion point in 2009 is going to be an extreme challenge.

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